Microfinance Organization
Credex LLC

Financial Statements
for the year ended 31 December 2019

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KPMG Georgia LLC
GMT Plaza
5th Floor, 4 Liberty Square
Tbilisi, Georgia, 0105
Telephone +995 322 93 5713
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory Board of Microfinance Organisation Credex LLC.

Opinion

We have audited the financial statements of Microfinance Organization Credex LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

— is consistent with the financial statements and does not contain material misstatement;

— contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

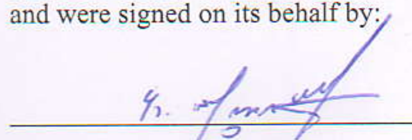
Karen Safaryan

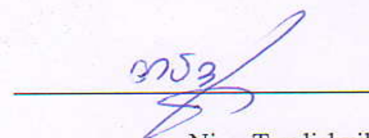
KPMG Georgia LLC
Tbilisi, Georgia
19 June 2020

GEL	Notes	2019	2018*
Interest income calculated using the effective interest method	5	1,193,549	1,710,183
Interest expense	5	(383,368)	(363,178)
Net interest income		**810,181**	**1,347,005**
Impairment reversal/(loss) on debt financial assets		49,695	(101,413)
Net interest income after provision for loan impairment		**859,876**	**1,245,592**
Net foreign exchange gain/(loss)		46,493	(3,473)
Net (loss)/gain on financial instruments at fair value through profit or loss		(4,303)	11,488
Other operating income		8,400	2,618
Personnel expenses	6	(306,460)	(314,189)
Other general administrative expenses	7	(281,948)	(281,804)
Depreciation and amortization expenses		(65,546)	(27,504)
Profit before income tax		**256,512**	**632,728**
Income tax expense	8	(37,908)	(94,238)
Profit and total comprehensive income for the year		**218,604**	**538,490**

* The Company has initially applied IFRS 16 Leases from 1 January 2019. Under the transition methods chosen, comparative information is not restated. See Note 2(e).

The financial statements as set out on pages 5 to 49 were approved by management on 19 June 2020 and were signed on its behalf by:





Zurab Akhalaia
Chief Executive Officer

Nino Tavdishvili
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

GEL	Notes	2019	2018*
ASSETS			
Cash and cash equivalents	9	2,305,370	739,059
Loans to customers	10	3,130,148	3,764,901
Property, equipment and intangible assets	11	25,850	45,068
Right of use assets	2(e)	195,620	-
Deferred tax assets	8	-	14,058
Financial instruments at fair value through profit or loss	14	-	5,950
Repossessed assets	10(b)(ii)	26,500	174,904
Other assets	12	96,966	98,036
Total assets		**5,780,454**	**4,841,976**
LIABILITIES			
Loans and borrowings	13	3,289,263	2,590,592
Lease liabilities	2(e)	206,712	-
Deferred tax liability	8	23,850	-
Current tax liability		-	46,191
Other liabilities		17,410	23,584
Total liabilities		**3,537,235**	**2,660,367**
EQUITY			
Charter capital	15	1,000,000	1,000,000
Retained earnings	15	1,243,219	1,181,609
Total equity		**2,243,219**	**2,181,609**
Total liabilities and equity		**5,780,454**	**4,841,976**

* The Company has initially applied IFRS 16 Leases from 1 January 2019. Under the transition method chosen, comparative information is not restated. See Note 2(e).

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

GEL	Notes	2019	2018*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		256,512	632,728
Adjustments for:			
Impairment reversal/(loss)		(49,695)	101,413
Depreciation and amortization		65,546	27,504
Interest income		(1,193,549)	(1,710,183)
Interest expenses		383,368	363,178
Foreign exchange (gain)/loss from revaluation		(46,493)	3,473
		(584,311)	**(581,887)**
Changes in:			
Decrease in loans to customers		705,067	299,246
Decrease/(increase) in repossessed assets		148,404	(148,404)
Increase in other assets		(190)	(21,378)
Change in financial instruments at fair value through profit or loss		5,950	(13,816)
Decrease in other liabilities		(6,998)	(5,515)
Cash used in operating activities		**267,922**	**(471,754)**
Interest received		1,245,324	1,625,855
Interest paid		(358,552)	(370,302)
Income tax paid		(46,191)	(82,673)
Cash from operations		**1,108,503**	**701,126**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of unpaid charter capital	15(a)	12,000	8,000
Receipts from loans and borrowings		1,271,526	2,111,327
Repayment of loans and borrowings		(689,430)	(2,343,629)
Repayment of lease liabilities	2(e)	(35,236)	-
Dividends paid	15(b)	(156,994)	(191,054)
Cash flows from/(used) in financing activities		**401,866**	**(415,356)**
Net increase in cash and cash equivalents		**1,510,369**	**285,770**
Effect of changes in exchange rates on cash and cash equivalents		55,942	29,688
Cash and cash equivalents as at the beginning of the year		739,059	423,601
Cash and cash equivalents as at the end of the year	9	**2,305,370**	**739,059**

* The Company has initially applied IFRS 16 Leases from 1 January 2019. Under the transition method chosen, comparative information is not restated. See Note 2(e).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

GEL	Charter capital	Retained earnings	Total
Balance as at 1 January 2018	**1,000,000**	**830,663**	**1,830,663**
Adjustment on initial application of IFRS 9, net of tax	-	3,510	3,510
Restated balance as at 1 January 2018	**1,000,000**	**834,173**	**1,834,173**
Total comprehensive income for the year			
Profit and other comprehensive income for the year	-	538,490	538,490
Transactions with owners, recorded directly in equity			
Dividends declared and paid	-	(191,054)	(191,054)
Balance as at 31 December 2018*	**1,000,000**	**1,181,609**	**2,181,609**
Balance as at 1 January 2019	**1,000,000**	**1,181,609**	**2,181,609**
Total comprehensive income for the year			
Profit and other comprehensive income for the year	-	218,604	218,604
Transactions with owners, recorded directly in equity			
Dividends declared and paid	-	(156,994)	(156,994)
Balance as at 31 December 2019	**1,000,000**	**1,243,219**	**2,243,219**

* The Company has initially applied IFRS 16 Leases from 1 January 2019. Under the transition method chosen, comparative information is not restated. See Note 2(e).

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organization and operations

Microfinance Organization Credex LLC ("the Company") was established on 23 August 2012 to provide sustainable lending services to those individual entrepreneurs who are not able to access credit facilities through the conventional banking system. The Company provides credit facilities to very small entrepreneurs to grow their businesses and improve their economic situation.

The legal address of the Company is 7 Chabukiani Street, Tbilisi, Georgia. The registration number of the Company is 400058030.

The supreme governing body of the Company is the Shareholders Board. The supervision of the Company's operations is conducted by the Supervisory Board, members of which are appointed by the Shareholder's Board. Daily management of the Company is carried out by the Chief Executive Officer appointed by the Supervisory Board.

The Company was founded by Georgian citizens Vakhtang Bartaia, Mikheil Tsogoshvili and Zurab Akhalaia with 70%, 20% and 10% shares, respectively, in the Company's charter capital.

The Company had the following shareholders:

As at 31 December 2019:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2018:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2019 the Company has received 32% of funding from these shareholders (2018: 38%). The shareholders have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have a number of other business interests outside the Company.

Related party transactions are disclosed in Note 19.

(b) Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company is the Georgian Lari (GEL) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The GEL is also the presentation currency for the purposes of these financial statements. All financial information presented in GEL is rounded to the nearest currency unit.

(d) Use of estimates and judgments

In preparing of these financial statements, management has made judgement, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding –Note 3(d)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 3(d)(iv) and Note 4.
- Measurement of the fair value of financial instruments – Note 3(d)(iv).

(e) Changes in accounting policies and presentations

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 16

The Company has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Company has applied IFRS 16 using the modified retrospective approach

and has measured the right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii. As a lessee

As a lessee, the Company leases head office and service centre space. The Company previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Both the right-of-use assets as well as related lease liability have been presented as separate line items in the statement of financial position.

Maturity analysis of leases is disclosed in Note 16(d).

Leases classified as operating leases under IAS 17

Previously, the Company classified leases as operating leases under IAS 17. The Company uses practical expedient for short-term leases and recognises the right-of-use asset and respective lease liability as per IFRS 16 for the contracts that are long-term either contractually or substantially. Since management applies the judgement in determining the effective lease terms, the lease terms used for IFRS 16 purposes may differ from the contractual minimum lease periods.

On transition to IFRS 16 for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.

The Company has concluded that there is no indication that the right-of-use assets are impaired.

iii. Impact on financial statements

(i) Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets at an amount equal to the lease liability.

GEL	1 January 2019
Right-of-use assets	241,948
Lease liabilities	(241,948)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 13% for GEL denominated leases.

(ii) Impact for the year

The impact of IFRS 16 on the financial statements for the year ended 31 December 2019 has been as follows:

GEL	Buildings
Right of use assets	
Carrying amount at 1 January 2019	241,948
Depreciation charge	(46,328)
Gross balance at 31 December 2019	241,948
Accumulated depreciation at 31 December 2019	(46,328)
Carrying amount at 31 December 2019	**195,620**
Lease liability at 1 January 2019	(241,948)
Interest charge	(27,764)
Payments of lease liabilities	35,236
Interest paid	27,764
Lease liability at 31 December 2019	**(206,712)**

GEL	31 December 2019
Current lease liabilities	59,000
Non-current lease liabilities	147,712
	206,712

(iii) Amounts recognised in profit or loss

GEL	2019
2019 – Leases under IFRS 16	
Interest on lease liabilities (note 5)	(27,764)
Expenses relating to short-term leases (note 7)	(8,800)
2018 – Operating leases under IAS 17	
Lease expense	(73,800)

(iv) Amounts recognised in statement of cash flows

GEL	2019
Payments of lease liabilities (-)	(35,236)
Interest paid (-)	(27,764)
Lease payments for short-term leases (-)	(8,800)
Total cash outflow for leases	**(71,800)**

A number of other new amendments to standards are also effective from 1 January 2019, but they do not have a material effect on the Company's financial statements.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(d)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income on a straight-line basis over the estimated life of the financial instrument.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

(c) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

i. Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force

in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

ii. Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

(d) Financial assets and financial liabilities

i. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iii. *Modification of financial assets and financial liabilities*

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the National Bank of Georgia (NBG) key rate, if the loan agreement entitles the Company to do so. The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(b)).

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. Impairment

See also Note 4.

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities assets are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.
  See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(d)(iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Death of borrower, liquidation of the borrower's company (if legal entity);
- Loans past due more than 90 days;
- Restructuring of the loan, linked with the economic loss;
- Bankruptcy proceedings and/or legal proceedings that may affect the company's ability to service its obligations;
- Fraud event or other force-majeure that may affect the company's solvency.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets.

Write-offs

Loans are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment loss on debt financial assets' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted current accounts held with banks with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(f) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortized cost (see Note 3(d)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(g) Property, equipment and intangible assets

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

- computers and hardware 3 years;
- office equipment 5 years;
- leasehold improvements 5 years;
- other 7 years.

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is 10 years.

(h) Repossessed property

Repossessed property represents non-financial assets acquired by the Company in settlement of overdue loans. The assets are initially recognised at net book value of respective loan when acquired. Assets that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Such assets are generally measured at the lower of carrying amount and fair value less costs to sell. Impairment is considered both at the time of classification as held for sale and subsequently. Impairment loss is calculated based on the difference between the carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss that arises is recognised in profit or loss.

(i) Charter capital

(i) Charter capital

Charter capital comprises the capital of the Company authorized by shareholders at the Company's incorporation. Charter capital is classified as equity.

(ii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Georgian legislation.

Dividends are reflected as an appropriation of retained earnings in the period when they are declared.

(j) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(k) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The lease liability is measured at amortised cost using the effective interest method. It is remeasured, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply a single discount rate to leases with similar characteristics.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A lease term reflects the Company's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Company bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease, forthcoming changes in regulation and the future business plans of the Company to be effectively captured in the estimate of the lease term.

Policy applicable before 1 January 2019

(i) As a lessee

In the comparative period, the Company did not have leases classified as finance leases.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(l) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

4 Financial risk review

This note presents information about the Company's exposure to financial risks. For information on the Company's financial risk management framework, see Note 16.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(d)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The Company uses the following criteria for determining whether there has been a significant increase in credit risk:

- Its financial standing deteriorated and the exposure has been restructured, but did not result in significant economic loss;
- The exposure is overdue for more than 30 days past due (except for bank balances); and
- Other weaknesses that the Company deems to have negative effect on borrower's performance.

Generating the term structure of PD (applicable to loans to customers)

Modelling of probability of default of loans is based on the collective analysis method for each segment of loan separately. According to definition of default, probability of default is based on historic monthly migration analysis in accordance with defaults in each segment for previous 5 years period. For the segments lacking historical data, the period differs depending on what period there are factual data.

For every segment, historical average monthly matrix was calculated and the probability of default for desired period was defined by extrapolation of the matrix (1 year and whole lifecycle).

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting period. Definition of significant varies for different type of lending in particular between business and consumer segments. Company uses overdue status (more than 30 days) of the financial assets as a backstop indicator and other qualitative indicators to assess whether significant increase in credit risk has occurred.

Definition of default

The Company considers loan to be in default if any of the following criteria are met:

- Loans past due more than 90 days (except for bank balances);
- Bankruptcy proceedings and/or legal proceedings that may affect the company's ability to service its obligations;
- Death of borrower, liquidation of the borrower's company (if legal entity);
- Material losses linked with restructuring;
- Fraud event or other force-majeure that may affect the borrower's ability to repay the loan.

Default status is assessed regularly (annually).

The Company should have a track record on which criteria loan was considered as default.

Incorporation of forward-looking

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as the National Bank of Georgia.

The Company performed analysis to identify key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, estimated relationships between macro-economic variable and credit risk.

Among the tested macroeconomic parameters such as inflation, currency depreciation, none of them was proved to have statistically significant influence on portfolio probabilities of default. Historical correlations over the past 3 years did not show the relationship between macroeconomic factors and PD.

When the correlation is identified, based the historical correlation PD is adjusted by using Vasicek model. Vasicek model uses the correlation between macro parameter and PD estimated through least square regression and adjusts PD based on historical dependency according to the forecasted GDP.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(d)(iii).

The Company renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. Under the Company's restructuring policy, the loan is restructured if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity and changing the timing of interest payments. Restructuring is a qualitative indicator of significant increase in credit risk. So, the Company considers such client as non-standard and moves to stage 2.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. Company further discounts EAD from default date to the reporting date.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

For the credit loss calculating purposes, the loss on loans is assessed collectively according to segments.

For loans to customers, the Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Vintage approach is used to determine the percentage of recovered portfolio of defaulted loans through its lifetime. Such loans are grouped by the default years and repaid exposure is linked to each group. Statistical results are used to forecast the future recoveries for the newly defaulted portfolios. Finally, cash flows are discounted by the effective interest rates and divided by the default portfolio to calculate LGD.

Exposure at Default (EAD) represents the expected exposure in the event of a default. EAD is calculated based on average remaining maturity of these products, for each lifetime period separately. Historical behavior is observed to calculate the average default periods from the disbursement of the loan. Testing default within years showed that on average mid-year is the point of default. So that point is used to calculate the EAD by subtracting the scheduled principal repayments till the forecasted overdue date and add three months interest accrued from overdue date till the date when the loan becomes default.

Loss allowance

The following table show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments.

	2019			
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	51,474	61,242	184,948	297,664
Transfer to Stage 1	9,431	-	(9,431)	-
Transfer to Stage 2	(7,552)	7,588	(36)	-
Transfer to Stage 3	(4,746)	(3,308)	8,054	-
Net remeasurement of loss allowance	(34,643)	(32,038)	(30,804)	(97,485)
New financial assets originated	47,790	-	-	47,790
Transfer to Stage 2	(4,337)	4,337	-	-
Transfer to Stage 3	(17,771)	-	17,771	-
Write-offs	-	(507)	(11,174)	(11,681)
Balance at 31 December	**39,646**	**37,314**	**159,328**	**236,288**

	2018			
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	43,908	58,715	93,628	196,251
Transfer to Stage 1	1,906	(1,157)	(749)	-
Transfer to Stage 2	(4,438)	5,563	(1,125)	-
Transfer to Stage 3	(4,448)	(3,328)	7,776	-
Net remeasurement of loss allowance	(26,040)	(10,153)	47,466	11,273
New financial assets originated	90,140	-	-	90,140
Transfer to Stage 2	(11,602)	11,602	-	-
Transfer to Stage 3	(37,952)	-	37,952	-
Balance at 31 December	**51,474**	**61,242**	**184,948**	**297,664**

The following table provides a reconciliation between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument.

	2019	
GEL	**Loans to customers at amortised cost - retail customers**	**Total**
Net remeasurement of loss allowance	(97,485)	(97,485)
New financial assets originated	47,790	47,790
Total	**(49,695)**	**(49,695)**

	2018	
GEL	**Loans to customers at amortised cost - retail customers**	**Total**
Net remeasurement of loss allowance	11,273	11,273
New financial assets originated	90,140	90,140
Total	**101,413**	**101,413**

The significant changes in the gross carrying amount of loans measured at amortized cost contributed to changes in loss allowance are further explained below.

The high volume of loans originated during the period increased the gross carrying amount of the loans portfolio by GEL 1,362 thousand with a corresponding increase in loss allowance measured on a 12-month basis by GEL 48.5 thousand. The loans originated and repaid during the period amounted GEL 104 thousand with a corresponding decrease in loss allowance measured on a 12-month basis by GEL 0.7 thousand.

The loans repaid during 2019 decreased the gross carrying amount of the portfolio by GEL 1,955 thousand (Business loans, Consumer loans collateralized by real estate and Other consumer loans by GEL 221 thousand, GEL 864 thousand and GEL 870 thousand, respectively) with a corresponding decrease in loss allowance measured on a 12-month and lifetime basis by GEL 97 thousand (Business loans, Consumer loans collateralized by real estate and Other consumer loans by GEL 41 thousand, GEL 37 thousand and GEL 19 thousand, respectively).

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2019 and 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3, are included in Note 3(d)(iv).

	31 December 2019			
GEL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Business loans				
Not overdue	102,758	-	-	102,758
Overdue more than 90 days	-	-	12,593	12,593
Overdue less than 90 (with restructure status)	-	177,811	-	177,811
Overdue more than 90 (with restructure status)	-	-	141,434	141,434
Total loans to customers gross	**102,758**	**177,811**	**154,027**	**434,596**
Loss allowance	**(1,734)**	**(9,089)**	**(36,528)**	**(47,351)**
Carrying amount	**101,024**	**168,722**	**117,499**	**387,245**

GEL	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Business loans				
Not overdue	202,186	-	-	202,186
Overdue more than 90 days	-	-	22,970	22,970
Overdue less than 90 (with restructure status)	-	237,534	-	237,534
Overdue more than 90 (with restructure status)	-	-	154,977	154,977
Total loans to customers gross	**202,186**	**237,534**	**177,947**	**617,667**
Loss allowance	**(6,274)**	**(27,057)**	**(66,265)**	**(99,596)**
Carrying amount	**195,912**	**210,477**	**111,682**	**518,071**

GEL	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Consumer loans collateralized by real estate				
Not overdue	943,760	-	-	943,760
Overdue less than 30 days	85,191	-	-	85,191
Overdue 60-90 days	-	41,334	-	41,334
Overdue more than 90 days	-	-	96,453	96,453
Overdue less than 90 (with restructure status)	-	379,241	-	379,241
Overdue more than 90 (with restructure status)	-	-	83,322	83,322
Total loans to customers gross	**1,028,951**	**420,575**	**179,775**	**1,629,301**
Loss allowance	**(7,494)**	**(14,563)**	**(40,510)**	**(62,567)**
Carrying amount	**1,021,457**	**406,012**	**139,265**	**1,566,734**

GEL	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Consumer loans collateralized by real estate				
Not overdue	1,289,264	-	-	1,289,264
Overdue 30-60 days	-	29,082	-	29,082
Overdue more than 90 days	-	-	182,882	182,882
Overdue less than 90 (with restructure status)	-	379,968	-	379,968
Overdue more than 90 (with restructure status)	-	-	118,541	118,541
Total loans to customers gross	**1,289,264**	**409,050**	**301,423**	**1,999,737**
Loss allowance	**(9,114)**	**(17,640)**	**(70,039)**	**(96,793)**
Carrying amount	**1,280,150**	**391,410**	**231,384**	**1,902,944**

GEL	31 December 2019 Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – Other consumer loans				
Not overdue	791,529	-	-	791,529
Overdue less than 30 days	54,731	-	-	54,731
Overdue 30-60 days	-	28,335	-	28,335
Overdue 60-90 days	-	8,361	-	8,361
Overdue more than 90 days	-	-	251,938	251,938
Overdue less than 90 (with restructure status)	-	104,667	-	104,667
Overdue more than 90 (with restructure status)	-	-	62,978	62,978
Total loans to customers gross	**846,260**	**141,363**	**314,916**	**1,302,539**
Loss allowance	**(30,418)**	**(13,662)**	**(82,290)**	**(126,370)**
Carrying amount	**815,842**	**127,701**	**232,626**	**1,176,169**

GEL	31 December 2018 Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – Other consumer loans				
Not overdue	984,919	-	-	984,919
Overdue less than 30 days	109,324	-	-	109,324
Overdue 30-60 days	-	38,976	-	38,976
Overdue 60-90 days	-	43,304	-	43,304
Overdue more than 90 days	-	-	139,804	139,804
Overdue less than 90 (with restructure status)	-	98,429	-	98,429
Overdue more than 90 (with restructure status)	-	-	30,405	30,405
Total loans to customers gross	**1,094,243**	**180,709**	**170,209**	**1,445,161**
Loss allowance	**(36,086)**	**(16,545)**	**(48,644)**	**(101,275)**
Carrying amount	**1,058,157**	**164,164**	**121,565**	**1,343,886**

At 31 December 2019, the Company did not hold any financial instruments for which no loss allowance was recognised because of collateral (2018: nil).

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2019:

				Fair value of collateral held	
GEL	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Real estate**	**Total**
Business loans	154,027	(36,528)	117,499	107,893	107,893
Consumer loans collateralized by real estate	179,775	(40,510)	139,265	139,091	139,091
Other consumer loans	314,916	(82,290)	232,626	-	-
Total credit-impaired loans to customers	**648,718**	**(159,328)**	**489,390**	**246,984**	**246,984**

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018:

GEL	Gross carrying amount	Loss allowance	Carrying amount	Fair value of collateral held: Real estate	Fair value of collateral held: Total
Business loans	177,947	(66,265)	111,682	111,662	111,662
Consumer loans collateralized by real estate	301,423	(70,039)	231,384	231,223	231,223
Other consumer loans	170,209	(48,645)	121,564	-	-
Total credit-impaired loans to customers	**649,579**	**(184,949)**	**464,630**	**342,885**	**342,885**

The tables above exclude overcollateralization.

Loans to customers with gross balance of GEL 286 thousand were restructured during 2019. The restructuring did not result in material losses for the Company.

During the period, there was no change in the Company's collateral policies. For details, refer to Note 10(b).

5 Net interest income

GEL	2019	2018
Interest income calculated using the effective interest method		
Loans to customers	1,193,549	1,710,183
Interest expense		
Loans and borrowings	(355,604)	(363,178)
Lease liabilities	(27,764)	-
Net interest income	**810,181**	**1,347,005**

6 Personnel expenses

GEL	2019	2018
Employee compensation	**306,460**	**314,189**

7 Other general administrative expenses

GEL	2019	2018
Professional services	133,263	79,865
Advertising and marketing	74,794	45,534
Office supplies	36,025	35,538
Communications and information services	9,134	13,760
Rent expenses*	8,800	73,800
Security	7,973	5,890
Other	11,959	27,417
	281,948	**281,804**

The professional fees above also include fees paid to the audit firms of about GEL 56,788 for the provision of audit and other professional services.

* Decrease in rent expenses is mainly attributable to the adoption of IFRS 16 from 1 January 2019 (see note 2(e)).

8 Taxation

GEL	2019	2018
Current year tax (benefit)/expense	-	81,383
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	37,908	12,855
Total income tax expense	**37,908**	**94,238**

In 2019 the applicable tax rate for current and deferred tax is 15% (2018: 15%).

Reconciliation of effective tax rate for the year ended 31 December:

GEL	2019	%	2018	%
Profit before tax	256,512		632,728	
Income tax at the applicable tax rate	38,477	15.0	94,909	15.0
(Non-taxable income)	(569)	(0.2)	(671)	(0.1)
	37,908	**14.8**	**94,238**	**14.9**

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2019 and net deferred tax assets as at 31 December 2018.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows.

2019 GEL	1 January 2019	Recognized in profit or loss	31 December 2019
Loans to customers	10,871	(47,737)	(36,866)
Property, equipment and intangible assets	828	1,318	2,146
Loans and borrowings	2,359	5,640	7,999
Other assets	-	2,871	2,871
	14,058	**(37,908)**	**(23,850)**

2018 GEL	1 January 2018	Recognized in profit or loss	31 December 2018
Loans to customers	25,815	(14,944)	10,871
Property, equipment and intangible assets	(1,792)	2,620	828
Loans and borrowings	2,890	(531)	2,359
	26,913	**(12,855)**	**14,058**

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

GEL	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Loans to customers	-	10,871	(36,866)	-	(36,866)	10,871
Property, equipment and intangibles	2,146	828	-	-	2,146	828
Loans and borrowings	7,999	2,359	-	-	7,999	2,359
Other assets	2,871	-	-	-	2,871	-
Net tax (liabilities)/assets	**13,016**	**14,058**	**(36,866)**	**-**	**(23,850)**	**14,058**

The management believes that recognition of deferred tax assets is appropriate as management considers it probable that future taxable profits would be available against which the deferred tax assets can be utilised.

9 Cash and cash equivalents

GEL	2019	2018
Cash on hand	20,883	75,441
Bank balances	2,284,487	663,618
Total cash and cash equivalents in the statement of financial position and statement of cash flows	**2,305,370**	**739,059**

No cash and cash equivalents are impaired or past due. All of the Company's bank balances are with the banks rated by Fitch as BB, BB- and B.

As at 31 December 2019 the Company allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2018: Stage 1). Bank balances are individually assessed for impairment. Management estimates that ECL is immaterial at reporting dates.

As at 31 December 2019, bank balance with one Georgian bank comprised 97% of the Company's total equity (2018: bank balance with the same bank was 23% of the Company's total equity).

10 Loans to customers

GEL	2019	2018
Loans to individuals		
Business loans	434,597	617,666
Consumer loans collateralized by real estate	1,629,301	1,999,737
Other consumer loans	1,302,538	1,445,162
Total loans to customers	**3,366,436**	**4,062,565**
Gross loans to customers	3,366,436	4,062,565
Loss allowance	(236,288)	(297,664)
Net loans to customers	**3,130,148**	**3,764,901**

Movements in the loan impairment loss for the year ended 31 December 2019 and 31 December 2018 are as follows:

GEL	2019	2018
Balance at the beginning of the year	297,664	199,761
Adjustment on initial application of IFRS 9	-	(3,510)
Restated balance as at 1 January	**297,664**	**196,251**
Write-offs	(11,681)	-
(Reversal)/net charge	(49,695)	101,413
Balance at the end of the year	**236,288**	**297,664**

(a) Key assumptions and judgments for estimating loan impairment

(i) Loans to customers

Key assumptions used by the Company in estimation of the expected credit loss on loans to customers are as follows:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

Change in these estimates by 10% increase/decrease of each parameter (PD, LGD, EAD) could affect the expected credit loss on loans to customers for 2019 by GEL 24 thousand.

(b) Analysis of collateral and other credit enhancements

(i) Loans to customers

The following table provides the analysis of the collateral as at 31 December 2019, net of impairment:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral not determined
Loans without signs of impairment (stage 1)			
Real estate	1,077,076	1,077,076	-
Motor vehicles	2,794	2,794	-
Third party guarantee	644,424	-	644,424
Loans without collateral	214,029	-	214,029
Total loans without signs of impairment (stage 1)	**1,938,323**	**1,079,870**	**858,453**
Overdue or impaired loans (stage 2 or 3)			
Real estate	821,686	821,686	-
Third party guarantee	344,260	-	344,260
Loans without collateral	25,879	-	25,879
Total overdue or impaired loans (stage 2 or 3)	**1,191,825**	**821,686**	**370,139**
Total loans to customers	**3,130,148**	**1,901,556**	**1,228,592**

The following table provides the analysis of the collateral as at 31 December 2018, net of impairment:

GEL	Loans to customer, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral not determined
Loans without signs of impairment (stage 1)			
Real estate	1,422,903	1,422,903	-
Motor vehicles	4,369	4,369	-
Third party guarantee	1,106,947	-	1,106,947
Total loans without signs of impairment (stage 1)	**2,534,219**	**1,427,272**	**1,106,947**
Overdue or impaired loans (stage 2 or 3)			
Real estate	944,466	944,466	-
Third party guarantee	286,055	-	286,055
Loans without collateral	161	-	161
Total overdue or impaired loans (stage 2 or 3)	**1,230,682**	**944,466**	**286,216**
Total loans to customers	**3,764,901**	**2,371,738**	**1,393,163**

The tables above are presented on the basis of excluding overcollateralization.

Loans with collateral are mainly secured by real estate and sureties.

The recoverability of loans which are neither past due nor credit-impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Company does not necessarily update the valuation of collateral as at each reporting date.

The Company's policy is to issue loans collateralised by real estate with a loan-to-value ratio at the date of loan issuance to be maximum 50%. Due to the low loan-to-value ratio, the management does not expect any negative movements in market prices to have a significant impact on

recoverability of the loans. Loans collateralised by real estate comprise more than 60% of the total portfolio as at 31 December 2019 (2018: 63%).

Loans issued with sureties and/or third-party guarantees received from individuals are presented as other consumer loans.

(ii) Repossessed collateral

During the year ended 31 December 2019, the Company has disposed repossessed assets of GEL 148,404 (2018: nil). As at 31 December 2019 the repossessed assets GEL 26,500 (2018: GEL 174,904) are presented separately in the statement of financial position.

The Company's policy is to sell these assets as soon as it is practicable.

(iii) Assets under lien

As at 31 December 2019, loans to customers with a gross amount of GEL 721,890 (2018: GEL 1,230,089) with underlying collaterals serve as collateral for loans and borrowings from the financial institution.

(c) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located in Tbilisi and Gori, Georgia who operate in the following economic sectors:

GEL	2019	2018
Loans to individuals		
Consumer loans	2,198,198	2,196,441
Services	194,872	438,970
Retail trade	228,421	239,852
Agriculture	36,143	106,581
Manufacturing	13,852	54,935
Transportation	1,695	4,190
Others	456,967	723,932
Total loans to customers	**3,130,148**	**3,764,901**

(d) Significant credit exposures

As at 31 December 2019 no individual loan balances or groups of connected borrowers' balances exceed 10% of equity (2018: nil).

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 16(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

11 Property, equipment and intangible assets

GEL	Computers and hardware	Office equipment	Intangible assets	Leasehold improvements	Other	Total
Cost						
Balance at 1 January 2019	14,213	80,263	52,356	41,286	917	189,035
Balance at 31 December 2019	**14,213**	**80,263**	**52,356**	**41,286**	**917**	**189,035**
Depreciation and amortization						
Balance at 1 January 2019	(13,447)	(69,314)	(24,159)	(36,469)	(578)	(143,967)
Depreciation and amortization for the year	(477)	(8,556)	(5,236)	(4,817)	(132)	(19,218)
Balance at 31 December 2019	**(13,924)**	**(77,870)**	**(29,395)**	**(41,286)**	**(710)**	**(163,185)**
Carrying amount at 31 December 2019	**289**	**2,393**	**22,961**	**-**	**207**	**25,850**
Cost						
Balance at 1 January 2018	14,213	80,263	52,356	41,286	917	189,035
Balance at 31 December 2018	**14,213**	**80,263**	**52,356**	**41,286**	**917**	**189,035**
Depreciation and amortization						
Balance at 1 January 2018	(12,886)	(55,995)	(18,923)	(28,212)	(447)	(116,463)
Depreciation and amortization for the year	(561)	(13,319)	(5,236)	(8,257)	(131)	(27,504)
Balance at 31 December 2018	**(13,447)**	**(69,314)**	**(24,159)**	**(36,469)**	**(578)**	**(143,967)**
Carrying amount at 31 December 2018	**766**	**10,949**	**28,197**	**4,817**	**339**	**45,068**

12 Other assets

GEL	2019	2018
Cash restricted for contracts of financial instruments at fair value (Note 14)	-	24,794
Receivable from shareholders	-	12,000
Total other financial assets	**-**	**36,794**
Prepayments	96,966	61,242
Total other non-financial assets	**96,966**	**61,242**
Total other assets	**96,966**	**98,036**

13 Loans and borrowings

This note provides information about the contractual terms of interest-bearing loans and borrowings which are measured at amortized cost. For more information about exposure to interest rate, foreign currency and liquidity risks, see Note 16(d).

GEL	2019	2018
Non-current Liabilities		
Secured loans from financial institutions	660,785	1,279,246
Unsecured loans from financial institutions	817,867	-
Unsecured loans from related parties	1,046,137	882,743
	2,524,789	**2,161,989**
Current Liabilities		
Secured loans from financial institutions	273,598	2,734
Unsecured loans from financial institutions	486,312	312,818
Unsecured loans from related parties	4,564	97,939
Unsecured loans from individuals	-	15,112
	764,474	**428,603**
Total loans and borrowings	**3,289,263**	**2,590,592**

As at 31 December 2019, loans to customers serve as collateral for loans and borrowings from financial institution (Note 10(b)(iii)).

The Company has unused credit line facility of GEL 1,548,239 from JSC Bank of Georgia.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans as at 31 December 2019 are as follows:

				31 December 2019	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured loans from financial institutions	GEL	13.0%	2022	934,383	934,383
Unsecured loans from financial institutions	USD	11.1%-12.6%	2020-2021	1,304,179	1,304,179
Unsecured loans from related parties	USD	13.0%	2021-2023	1,050,701	1,050,701
Total interest-bearing liabilities				**3,289,263**	**3,289,263**

Terms and conditions of outstanding loans as at 31 December 2018 are as follows:

				31 December 2018	
GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured loans from financial institutions	GEL	13%	2020	1,281,980	1,281,980
Unsecured loans from related parties	USD	13%	2019-2023	980,682	980,682
Unsecured loans from financial institutions	USD	12.6%	2019	312,818	312,818
Unsecured loans from individuals	GEL	13%	2019	15,112	15,112
Total interest-bearing liabilities				**2,590,592**	**2,590,592**

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

GEL	Loans and borrowings	Lease liability	Total
Balance at 1 January 2019	**2,590,592**	**241,948**	**2,832,540**
Proceeds from borrowed funds	1,271,526	-	1,271,526
Repayment of borrowed funds	(689,430)	-	(689,430)
Repayment of lease liability	-	(35,236)	(35,236)
Interest expense	355,604	27,764	383,368
Interest paid	(330,788)	(27,764)	(358,552)
Effect of changes in foreign exchange rates	91,759	-	91,759
Balance at 31 December 2019	**3,289,263**	**206,712**	**3,495,975**

GEL	Loans and borrowings	Total
Balance at 1 January 2018	**2,796,179**	**2,796,179**
Proceeds from borrowed funds	2,111,327	2,111,327
Repayment of borrowed funds	(2,343,629)	(2,343,629)
Interest expense	363,178	363,178
Interest paid	(370,302)	(370,302)
Effect of changes in foreign exchange rates	33,839	33,839
Balance at 31 December 2018	**2,590,592**	**2,590,592**

During 2019 the Company paid dividends of GEL 156,994 (2018: GEL 191,054) (note 15(b)).

14 Financial instruments at fair value through profit or loss

GEL	2019	2018
ASSET		
Derivative financial instruments		
Foreign currency contracts	**-**	**5,950**

Financial instruments at fair value through profit or loss comprise foreign currency contracts. No financial assets at fair value through profit or loss are past due.

Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2018, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates in effect at the reporting date. The resultant unrealized gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
GEL	**2019**	**2018**	**2019**	**2018**
Buy USD sell GEL				
Less than 3 months			-	2.62
Outflow	-	*(275,093)*		
Inflow	-	*281,043*		
Net position	**-**	**5,950**		

15 Equity

(a) Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company.

GEL	2019	2018
Issued and paid charter capital	1,000,000	988,000
Unpaid charter capital	-	12,000
Total authorised charter capital as at 31 December	**1,000,000**	**1,000,000**

As at 31 December 2019 the Company has nil (2018: GEL 12,000) as a receivable from its shareholders (see Note 12), as according to Georgian legislation the Company's Charter is a legally binding agreement between the partners (shareholders and the Company). The Charter defines payment terms and the amount of the unpaid charter capital.

(b) Dividends

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. As at 31 December 2019 the Company had retained earnings of GEL 1,243,219 (2018: GEL 1,181,609).

In 2019, dividends of GEL 156,994 were declared and paid to shareholders (2018: GEL 191,054).

16 Risk management, corporate governance and internal control

Management of risk is fundamental to the business and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board, together with its committees, has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Company's Supervisory Board and CEO are responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The CEO is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Supervisory Board.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk for the Company arises from open positions in interest rate financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2019 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2019						
ASSETS						
Loans to customers	399,849	15,232	252,510	2,151,215	311,342	3,130,148
Total assets	**399,849**	**15,232**	**252,510**	**2,151,215**	**311,342**	**3,130,148**
LIABILITIES						
Loans and borrowings	(42,119)	(146,765)	(575,588)	(2,524,791)	-	(3,289,263)
Lease liability	(3,093)	(6,469)	(30,180)	(166,970)	-	(206,712)
Total liabilities	**(45,212)**	**(153,234)**	**(605,768)**	**(2,691,761)**	**-**	**(3,495,975)**
Net position	**354,637**	**(138,002)**	**(353,258)**	**(540,546)**	**311,342**	**(365,827)**

A summary of the interest gap position for major financial instruments as at 31 December 2018 is as follows:

GEL	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2018						
ASSETS						
Loans to customers	369,582	98,066	466,545	2,584,135	246,573	3,764,901
Other financial assets	36,794	-	-	-	-	36,794
Total assets	**406,376**	**98,066**	**466,545**	**2,584,135**	**246,573**	**3,801,695**
LIABILITIES						
Loans and borrowings	(105,791)	-	(322,809)	(2,161,992)	-	(2,590,592)
Net position	**300,585**	**98,066**	**143,736**	**422,143**	**246,573**	**1,211,103**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019 Average effective interest rate, %		2018 Average effective interest rate, %	
	GEL	**USD**	**GEL**	**USD**
Interest bearing assets				
Loans to customers	30%	23%	36%	24%
Interest bearing liabilities				
Loans from individuals	-	13%	13%	13%
Loans from financial institutions	13%	11.5%	13%	12.8%

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed interest rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss.

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018, is as follows:

	2019	**2018**
100 bp parallel fall	(660)	(3,352)
100 bp parallel rise	660	3,352

(ii) Currency risk

The Company has assets and liabilities denominated in USD. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2019:

GEL	**GEL**	**USD**	**Total**
ASSETS			
Cash and cash equivalents	204,579	2,079,908	2,284,487
Loans to customers	2,541,124	589,024	3,130,148
Total assets	**2,745,703**	**2,668,932**	**5,414,635**
LIABILITIES			
Loans and borrowings	(934,383)	(2,354,880)	(3,289,263)
Lease liabilities	(206,712)	-	(206,712)
Total liabilities	**(1,141,095)**	**(2,354,880)**	**(3,495,975)**
Net position	**1,604,608**	**314,052**	**1,918,660**

The following table shows the currency exposure structure of financial assets and liabilities as at 31 December 2018:

GEL	GEL	USD	Total
ASSETS			
Cash and cash equivalents	88,091	575,527	663,618
Loans to customers	2,858,754	906,147	3,764,901
Other financial assets	12,000	24,794	36,794
Total assets	**2,958,845**	**1,506,468**	**4,465,313**
LIABILITIES			
Loans and borrowings	(1,297,092)	(1,293,500)	(2,590,592)
Net position	**1,661,753**	**212,968**	**1,874,721**
The effect of derivatives held for risk management	**(275,093)**	**281,043**	**5,950**
Net position after derivatives held for risk management purposes	**1,386,660**	**494,011**	**1,880,671**

The following significant exchange rates were applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD	2.8192	2.5345	2.8677	2.6766

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2019 and 2018, would have increased/(decreased) profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

GEL	2019	2018
10% appreciation of USD against GEL	26,694	41,991

A strengthening of the GEL against the above currencies at 31 December 2019 and 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company has policies and procedures for the management of credit exposures, including the establishment of a Credit Committee, the analytical bodies responsible for analyzing the information in the loan applications, assessing and reducing the credit risks. The credit policy (in the form of the Credit Manual) is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The Credit Committee is authorized to make the final decision about financing or rejecting the loan applications. The loans presented to the Committee for approval are based on limits established by the credit policy.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks through application data verification procedures. Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the CEO. Regular monitoring of loans is also performed by CEO. The monitoring system helps to manage credit risks and to minimize them in a timely manner.

Exposure to credit risk is also managed by obtaining collateral and personal guarantees. Collateral is one of the main safeguards of the Company in terms of credit risk. Company has a conservative strategy to give all standard loans based on adequate collateral which is assessed either by credit expert, where observable market data is available for a provided property, or an independent valuation company when the collateral is such that no active market exists for it.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk and Legal Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

GEL	2019	2018
ASSETS		
Loans to customers	3,130,148	3,764,901
Bank balances	2,284,487	663,618
Financial assets at FVTPL	-	5,950
Other financial assets	-	36,794
Total maximum exposure	**5,414,635**	**4,471,263**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 4 and Note 10.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

Liquidity position is monitored by the CEO and Supervisory Board. Decisions on liquidity management are made by the Supervisory Board and implemented by the CEO.

The following tables show the undiscounted cash flows on financial liabilities and on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liabilities.

The maturity analysis for financial liabilities as at 31 December 2019 is as follows:

GEL	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	248,870	360,564	456,116	3,044,129	4,109,679	3,289,263
Lease liabilities	15,750	15,750	31,500	203,000	266,000	206,712
Total financial liabilities	**264,620**	**376,314**	**487,616**	**3,247,129**	**4,375,679**	**3,495,975**

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

GEL	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total gross amount outflow	Carrying amount
Non-derivative financial liabilities						
Loans and borrowings	186,151	188,568	366,686	2,682,923	3,424,328	2,590,592
Derivative financial liabilities						
Financial instruments at fair value through profit or loss						
Outflow	*275,093*	-	-	-	*275,093*	*275,093*
Inflow	*(281,043)*	-	-	-	*(281,043)*	*(281,043)*
Total financial liabilities	**180,201**	**188,568**	**366,686**	**2,682,923**	**3,418,378**	**2,584,642**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2019:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	2,305,370	-	-	-	-	-	-	2,305,370
Loans to customers	169,142	15,232	251,367	2,151,215	311,342	-	231,850	3,130,148
Right of use assets	-	-	-	195,620	-	-	-	195,620
Property, equipment and intangible assets	-	-	-	-	-	25,850	-	25,850
Repossessed assets	-	-	-	-	-	26,500	-	26,500
Other assets	3,188	-	-	-	-	93,778	-	96,966
Total assets	**2,477,700**	**15,232**	**251,367**	**2,346,835**	**311,342**	**146,128**	**231,850**	**5,780,454**
Liabilities								
Loans and borrowings	42,119	146,767	575,588	2,524,789	-	-	-	3,289,263
Lease liabilities	3,093	6,469	30,180	166,970	-	-	-	206,712
Deferred tax liability	-	-	-	-	-	23,850	-	23,850
Other liabilities	17,410	-	-	-	-	-	-	17,410
Total liabilities	**62,622**	**153,236**	**605,768**	**2,691,759**	**-**	**23,850**	**-**	**3,537,235**
Net position	**2,415,078**	**(138,004)**	**(354,401)**	**(344,924)**	**311,342**	**122,278**	**231,850**	**2,243,219**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2018:

GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Assets								
Cash and cash equivalents	739,059	-	-	-	-	-	-	739,059
Loans to customers	167,748	98,066	466,545	2,584,135	246,573	-	201,834	3,764,901
Property, equipment and intangible assets	-	-	-	-	-	45,068	-	45,068
Deferred tax assets	-	-	-	-	-	14,058	-	14,058
Financial instruments at fair value through profit or loss	5,950	-	-	-	-	-	-	5,950
Repossessed assets	-	-	-	-	-	174,904	-	174,904
Other assets	51,484	-	-	-	-	46,552	-	98,036
Total assets	**964,241**	**98,066**	**466,545**	**2,584,135**	**246,573**	**280,582**	**201,834**	**4,841,976**
Liabilities								
Loans and borrowings	105,791	-	322,809	2,161,992	-	-	-	2,590,592
Current tax liability	-	46,191	-	-	-	-	-	46,191
Other liabilities	23,584	-	-	-	-	-	-	23,584
Total liabilities	**129,375**	**46,191**	**322,809**	**2,161,992**	**-**	**-**	**-**	**2,660,367**
Net position	**834,866**	**51,875**	**143,736**	**422,143**	**246,573**	**280,582**	**201,834**	**2,181,609**

17 Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of charter capital and retained earnings.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The debt to capital ratio at the end of the reporting period is as follows:

GEL	2019	2018
Total liabilities	3,537,235	2,660,367
Less cash and cash equivalents	2,305,370	739,059
Net debt	**1,231,865**	**1,921,308**
Total equity	2,243,219	2,181,609
Debt to capital ratio	**0.5**	**0.9**

In accordance with the existing legislation of Georgia, the Company has to maintain issued capital of not less than GEL 1,000 thousand and to meet economic ratios and limits imposed by National Bank of Georgia. The Company was in compliance with these requirements at 31 December 2019 and 2018.

18 Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

19 Related party transactions

Company does not have an ultimate controlling party. As at 31 December 2019 and 2018 shareholders of the Company are as follows:

As at 31 December 2019:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

As at 31 December 2018:
Sophio Devdariani – 40%;
Natalia Kekelidze – 30%;
Zurab Akhalaia – 30%.

(a) Transactions with the members of the Supervisory Board and Management Board

Total remuneration included in personnel expenses (Note 6) for the year ended 31 December 2019 and 2018 is as follows:

GEL	2019	2018
Employee compensation	**126,415**	**125,500**

(b) Transactions with other related parties

The outstanding balances and related profit or loss amounts of transactions for the year ended 31 December with other related parties are as follows:

GEL	Notes	Shareholders 2019	Shareholders 2018
Statement of financial position			
ASSETS			
Other financial assets	12	-	12,000
LIABILITIES			
Loans and borrowings	13	(1,050,701)	(980,682)
Profit (loss)			
Interest expense		(133,696)	(120,199)
Interest income		-	746

Transactions with related parties are not secured.

20 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

21 Events after the reporting period

In 2020 shareholders of the Company made a decision to declare dividends of GEL 35,000 and GEL 35,000 based on the 2019 Q4 and 2020 Q1 financial performance results, respectively. The whole amount was paid to shareholders as of the date of these financial statements were authorised to issue.

New unsecured loans were borrowed from a foreign financial institution, of USD 45,391 with 11.05% annual interest rate, maturing in June 2021, of USD 45,084 with 11.05% annual interest rate, maturing in August 2021 and of USD 92,673 with 11.05% annual interest rate, maturing in September 2021.

The COVID-19 outbreak

(i) General overview

On 11 March 2020, the World Health Organisation (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.). The restrictions imposed by Government of Georgia do not apply to any of the Micro Finance Organization's ("MFO"'s) operations. The Company continues work in under the business continuity plan with personnel assigned offices and working remotely from home as much as possible.

(ii) Changes in regulatory requirements

As response to the existing crisis, the National Bank of Georgia ("NBG") took several actions aiming at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The following NBG actions may potentially have effect on the MFO's operations:

- in order to stabilize sudden increase in foreign exchange rates (GEL/USD peak rate of 3.4842 was recorded on 27 March 2020), NBG sold USD 100 million on local market during March 2020;
- coordinated Georgian banks' and MFOs' initiative to provide voluntary grace period of three months to most of retail and small business borrowers within the country. In parallel to slightly amplified drawdowns of deposits for household cash needs, this initiative has further stressed the GEL liquidity in the financial sector. To address it, NBG started to offer FX swaps to commercial banks and microfinance organizations, up to USD 200 million for each sector;
- is not going to impose any monetary sanctions in case of breach of economic normative and limits driven by external factors (e.g. reserves, exchange rate deprecation).

(iii) Effect of COVID 19 on the Company

Management considered the following operating risks that may adversely affect the Company:

- Unavailability of staff for extended period of time, which interrupts issuance of new loans;
- Inability of customers to make loan payments.

In order to mitigate the risks resulting from potential adverse scenarios, management started to implement the measures, including:

- Implementation of work from home program for a significant group of employees;
- Granting effected customers moratorium on the repayments based on their request.

As part of the Government initiative to provide moratorium on the repayment of loans to customers (principal and interest) the Company followed individual approach on a customer's need base. The Company granted moratorium on the repayments of principal and interest to its customers that were effected based on their request. Around 5-7% of customers have been granted moratorium for the repayment of interest and principal for 3 months as of the date of these financial statements are authorized for issue. The Company has considered effect of moratorium in its liquidity analysis. In addition, the Company revised expected credit loss model for updated macroeconomic environment thus resulting in increase of expected credit losses in 2020.

Based on these and other assumptions, the Management of the Company have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements, which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meets its liabilities as they fall due for next 12 months. The Management also analyzed the Company's compliance with the NBG regulations. The Company is expected to be in compliance with NBG requirements. Even in the worst-case scenario of stress tests the Company maintains sufficient liquidity to support continued operations for the foreseeable future.

Based on the above analysis, the Management is confident, that COVID-19 pandemic and resulting reduction of economic activity within the country as well as downturn in global financial markets will not have significant effect on the Company's financial position and financial results.